

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

GENOA-OCEOLA SEWER  
& WATER AUTHORITY

REPORT ON AUDIT OF  
FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 2006

GENOA-OCEOLA SEWER & WATER AUTHORITY

SEWER & WATER AUTHORITY BOARD

Chairman - Gary McCririe  
Vice-Chairman - William Bamber  
Treasurer - Robin Hunt  
Secretary - Lance Schuhmacher

REPRESENTATIVE OF LIVINGSTON COUNTY DRAIN COMMISSION

Brian Jonckheere

UTILITY DIRECTOR

Greg Tatara

SEWER & WATER AUTHORITY ATTORNEY

Neal D. Nielsen

SEWER & WATER AUTHORITY AUDITORS

Pfeffer, Hanniford & Palka  
Certified Public Accountants

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**PFEFFER ■ HANNIFORD ■ PALKA**  
*Certified Public Accountants*

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**FAX (810) 229-5578**

December 19, 2006

Sewer & Water Authority Board  
Genoa-Oceola Sewer & Water Authority  
2911 Dorr Road  
Brighton, Michigan 48116

**INDEPENDENT AUDITORS' REPORT**

Honorable Board of Trustees:

We have audited the accompanying financial statements of the Genoa-Oceola Sewer & Water Authority as of and for the year ended September 30, 2006. These financial statements are the responsibility of the Authority Board. Our responsibility is to express an opinion on these financial statements based on the audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Genoa-Oceola Sewer & Water Authority, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year end in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 6 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Genoa-Oceola Sewer & Water Authority's basic financial statements. The supplementary information is presented for purposes of additional analysis is not a required part of the basic financial statements. The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, we do not express an opinion on the supplementary information.

*Pfeffer, Hanniford & Palka, P.C.*

**PFEFFER, HANNIFORD & PALKA**  
**Certified Public Accountants**

MANAGEMENT  
DISCUSSION  
AND  
ANALYSIS

## Management Discussion and Analysis September 30, 2006

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Within this section of the Genoa-Oceola Sewer & Water Authority financial report, the Authority's management is providing a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2006. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Authority's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

### Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's financial statements. The financial statements include all the statements required by the Governmental Accounting Standards Board and the notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

### ***Government-wide Financial Statements***

The Authority's annual reports include two Authority-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Revenues, Expenses and Changes in Net Assets which reports how the Authority's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

The Authority's financial reporting includes all the funds of the Authority (primary government) and, additionally, organizations for which the Authority is accountable (component units). Since the Authority's sole purpose is to operate and manage a sewer system, only one fund is maintained. Thus, there are no fund financial statements prepared by the Authority.

### ***Notes to the financial statements***

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements.

### ***Other information***

In addition to the financial statements and accompanying notes, this report also presents certain supplementary information. Other supplementary information includes a budget to actual reconciliation for current year Authority operations.

### Financial Analysis of the Authority as a Whole

The Authority's net assets at the end of the fiscal year were \$25,880,281. This is an \$114,876 increase over last year's net assets of \$25,765,405.

The following tables provide a summary of the Authority's financial activities and changes in net assets:

#### **Summary of Net Assets**

	<u>9/30/2006</u>	<u>9/30/2005</u>
Current and other assets	\$ 676,046	\$ 715,579
Restricted assets	5,456,358	5,626,455
Capital assets, net	<u>25,129,843</u>	<u>24,743,957</u>
Total assets	<u>31,262,247</u>	<u>31,085,991</u>
Accounts payable and other current liabilities	121,966	155,586
Bonds and notes payable	<u>5,260,000</u>	<u>5,165,000</u>
Total liabilities	<u>5,381,966</u>	<u>5,320,586</u>
Net assets:		
Invested in capital assets, net of related debt	20,179,843	19,578,957
Unrestricted	<u>5,700,438</u>	<u>6,186,448</u>
Total net assets	<u>\$ 25,880,281</u>	<u>\$ 25,765,405</u>



### Summary of Changes in Net Assets

	<u>9/30/2006</u>	<u>9/30/2005</u>
Operating revenues	<u>\$ 1,324,102</u>	<u>\$ 1,250,445</u>
Operating expenses		
System operations	2,141,053	1,927,434
Administrative	<u>160,947</u>	<u>144,113</u>
Total operating expenses	<u>2,302,000</u>	<u>2,071,547</u>
Operating (loss)	(977,898)	(821,102)
Non-operating revenues, net	20,824	19,002
Capital contributions	<u>1,071,950</u>	<u>951,500</u>
Net income	114,876	149,400
Beginning net assets	<u>25,765,405</u>	<u>25,616,005</u>
Ending net assets	<u><u>\$ 25,880,281</u></u>	<u><u>\$ 25,765,405</u></u>

Revenues from operations increased by 5.9%, as usage increased due to new users being added to the system. Operating expenses increased over the prior year, as major repairs and maintenance were performed on the system. Infrastructure contributions (non-cash) to the Authority from developer's construction activities were over \$1,041,950. This amount was estimated by the Authority's engineers. Also, the two member townships contributed \$30,000 in cash to replenish amounts spent from the system improvement fund on repairs and capital equipment.

As a result, net income decreased from \$149,400 for the year ended September 30, 2005 to \$114,876 for the year ended September 30, 2006.

#### Capital and Debt Administration

As of September 30, 2006, the authority had only one set of bonds outstanding for the sewage treatment system. The outstanding balance for these bonds totaled \$4,950,000 at fiscal year end. Genoa & Oceola townships are paying their portion of this debt for the Authority with their respective new user funds.

The Authority borrowed \$310,000 from Genoa Township to pay for costs incurred to refurbish part of the sewer plant. The loan is a verbal, no interest short-term loan. The cost incurred to date to refurbish the batch reactors is just over \$232,000 and is being carried in the construction in progress accounts until the work is complete.

The member townships and various developers directly spent approximately \$1,041,950 for additions to the collection system (sewer lines, pumps, etc.). This amount is recorded as capital contributions or income in the statement of revenues and expenses since the infrastructure is added to the Authority's fixed assets and will be depreciated over future years. The Authority also spent \$43,480 for telemetry phone system equipment during the year.

#### Economic Factors and Next Year's Goals

The Authority's financial outlook continues to remain strong. The population in the service area is expected to grow with new users being regularly added to the system. However, due to the downturn in the economy the number of new users may slow down for a few years until the economy turns around.

The Authority faces challenges in the future, as well. Rising energy and fuel costs pose challenges to both the Authority and its customers. During this fiscal year, the Authority's electrical and heating costs increased by over 18% from the prior year.

#### Contacting the Authority's Financial Management

This report is designed to provide a general overview of the Authority's financial position and comply with finance-related regulations. If you have further questions about this report or request additional information, please contact the Authority at 2911 Dorr Road, Brighton, Michigan, 48116.

GOVERNMENT-WIDE  
FINANCIAL  
STATEMENTS

GENOA-OCEOLA SEWER & WATER AUTHORITY  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2006

ASSETS

CURRENT ASSETS

Cash	\$ 156,703	
Accounts receivable - sewer	490,607	
Accounts receivable - MHOG SWATH	16,686	
Inventory - parts	<u>12,050</u>	
Total current assets		\$ 676,046

RESTRICTED ASSETS

Cash - sewer equipment and future improvements	431,991	
Cash - expansion	51,017	
Cash - debt service	23,350	
Accounts receivable - member townships	<u>4,950,000</u>	
Total restricted assets		5,456,358

CAPITAL ASSETS

Land	290,720	
Sewer system	37,469,474	
Software, equipment and furniture	231,261	
Construction in progress	<u>232,734</u>	
	38,224,189	
Less accumulated depreciation	<u>13,094,346</u>	
Capital assets		<u>25,129,843</u>
Total assets		<u>31,262,247</u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable		121,966
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CURRENT LIABILITIES (from restricted assets)

Bonds payable - expansion	225,000	
Note payable - Genoa Township	<u>310,000</u>	
Total current liabilities (from restricted assets)		<u>535,000</u>
Total current liabilities		656,966

LONG-TERM LIABILITY (from restricted assets)

Bonds payable - expansion		<u>4,725,000</u>
Total liabilities		<u>5,381,966</u>

NET ASSETS

NET ASSETS

Investment in capital assets, net of related debt	20,179,843	
Unreserved - sewer	<u>5,700,438</u>	
Total net assets		<u>\$ 25,880,281</u>

The accompanying notes are an integral part of these financial statements

**PFEFFER, HANNIFORD & PALKA**

*Certified Public Accountants*

GENOA-OCEOLA SEWER & WATER AUTHORITY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

OPERATING REVENUES	
Billings	<u>\$ 1,324,102</u>
OPERATING EXPENSES	
Engineering fees	47,792
Depreciation	932,279
Contracted labor	360,412
Groundwater discharge	32,705
Sludge disposal	57,578
Chemicals	11,795
Repairs and maintenance	358,717
Sewer line cleaning	36,077
Licenses and permits	6,421
Inspections	2,249
Administrative consent order	41,556
Utilities	197,738
Telephone	29,448
Lab supplies	25,696
Miss Dig	<u>590</u>
Total operating expenses	<u>2,141,053</u>
ADMINISTRATIVE EXPENSES	
Insurance	23,514
Director fees	18,659
Meter reading - billing preparation	80,254
Office expenses	4,594
Authority per-diem fees	9,075
Bookkeeping	5,400
Legal fees	196
Accounting and audit fees	<u>19,255</u>
Total administrative expenses	<u>160,947</u>
Total expenses	<u>2,302,000</u>
OPERATING (LOSS)	<u>(977,898)</u>
NON-OPERATING REVENUES	
Interest	10,853
Miscellaneous	<u>9,971</u>
Total other income	<u>20,824</u>
Net income (loss) before capital contributions	<u>(957,074)</u>
CAPITAL CONTRIBUTIONS	
Developer contributions	1,041,950
Member contributions	<u>30,000</u>
Total capital contributions	<u>1,071,950</u>
Net income	114,876
NET ASSETS, OCTOBER 1, 2005	<u>25,765,405</u>
NET ASSETS, SEPTEMBER 30, 2006	<u>\$ 25,880,281</u>

The accompanying notes are an integral part of these financial statements

GENOA-OCEOLA SEWER & WATER AUTHORITY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

CASH FLOWS FROM (USED-IN) OPERATING ACTIVITIES		
Receipts from customers	\$ 1,354,107	
Receipts from others	9,971	
Payments to vendors	<u>(1,344,885)</u>	
Net cash from operating activities		\$ 19,193
CASH FLOWS FROM (USED-IN) CAPITAL AND RELATED FINANCING ACTIVITIES		
Received from member townships	245,000	
Payment of principal on bonds	(215,000)	
Acquisition of property, plant and equipment	(276,215)	
Proceeds from member loan	<u>310,000</u>	
Net cash from capital and related financing activities		63,785
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income		<u>10,853</u>
Increase in cash		93,831
CASH AT OCTOBER 1, 2005		<u>569,230</u>
CASH AT SEPTEMBER 30, 2006		<u>\$ 663,061</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM (USED IN) OPERATING ACTIVITIES		
Operating (loss)		\$ (977,898)
Adjustments to reconcile operating (loss) to net cash from (used in) operating activities		
Miscellaneous income		9,971
Depreciation expense		932,279
Changes in assets and liabilities		
Receivables, net		57,005
Prepaid expenses		31,456
Accounts and other payables		<u>(33,620)</u>
Net cash from operating activities		<u>\$ 19,193</u>
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES		
System contributions from developers		<u>\$ 1,041,950</u>

The accompanying notes are an integral part of these financial statements

NOTES  
TO  
FINANCIAL  
STATEMENTS

GENOA-OCEOLA SEWER & WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

**NOTE 1 - DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
OF THE REPORTING ENTITY**

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The Genoa-Oceola Sewer & Water Authority was established on November 1, 1990, under Act No. 233, Public Acts of Michigan, 1955 as amended. The purpose of this Authority is to acquire, own, improve, enlarge, extend, operate, maintain, manage and administer sewage disposal systems, water supply systems, or both.

The sewer system is located in both Genoa and Oceola Townships.

The financing of the sewer system has taken place at the township level (Genoa and Oceola) and the county level (Livingston County Drain Commission). The related debt service funds and construction funds (capital project) are maintained in the financial statements of those aforementioned entities.

Based on the criteria established by Government Accounting Standards Board (GASB) Statement Number 39, all funds, activities and agencies are included in the Authority's reporting entity.

The Authority board is composed of three members appointed by the Genoa Township Board, three members appointed by the Oceola Township Board and one representative from the Livingston County Drain Commission. One of the three members appointed by the township boards serve as alternates in the event one of the two regular members is absent from an Authority board meeting.

**A. SIGNIFICANT ACCOUNTING POLICIES**

The accounts of the Authority are organized on the basis of a proprietary fund type, specifically an Enterprise Fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Authority's assets, liabilities, net assets, revenues, and expenses. Enterprise funds account for activities:

1. that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or
2. that are required by laws or regulations that the activity's costs of providing service, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar items; or
3. that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

**B. MEASUREMENT FOCUS**

The financial activities of the Authority are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets and liabilities associated with its operations are included on the statement of net assets; revenues are recorded when earned, and expenses are recorded when liabilities are incurred.

**C. CASH AND CASH EQUIVALENTS**

The Authority considers its deposits and restricted deposits and investments held with maturities of three months or less to be cash equivalents.



GENOA-OCEOLA SEWER & WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 1 - DESCRIPTION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
OF THER REPORTING ENTITY (continued)

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D. CAPITAL ASSETS

Capital assets are stated at cost. Depreciation and amortization are computed using the straight-line method based on the estimated useful lives of the related assets, which range from 5 to 15 years for equipment and 5 to 40 years for buildings, infrastructure, and improvements.

E. CONSTRUCTION-IN-PROGRESS

The costs of acquisition and construction of major plant and equipment is recorded as construction-in-progress. As facilities are accepted by the Authority and become operative, they are transferred to the facilities and improvements or machinery and equipment accounts and depreciated in accordance with the Authority's depreciation policies. Costs of construction projects that are discontinued are recorded as expense in the year in which the decision is made to discontinue such projects.

F. CAPITALIZATION OF INTEREST

A portion of the interest cost incurred on capital projects is capitalized on assets that require a period of time for construction or to otherwise prepare them for their intended use. Such amounts are amortized over the useful lives of the assets.

G. PREMIUM AND ISSUANCE COSTS

Bond discount, premium, and issuance costs are amortized over the term of the related bonds. No such bond discount/premiums or issuance costs were outstanding or issued during the year ended September 30, 2006.

NOTE 2 - MANAGEMENT'S ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

GENOA-OCEOLA SEWER & WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

**NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS**

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 100,000	\$ 100,000
Uninsured and uncollateralized	<u>563,061</u>	<u>564,317</u>
Total deposits	<u>\$ 663,061</u>	<u>\$ 664,317</u>

**NOTE 4 - ACCOUNTS RECEIVABLE**

Accounts receivable consist of regular quarterly billings and penalties. Each year, as of September 30, accounts receivable that are over 90 days old are placed on the tax roll for the applicable township. As of September 30, 2006, approximately \$103,142 of the outstanding \$490,607 accounts receivable went on the tax roll for collection. The Authority will receive the \$103,142 by March of 2007 through the tax collection process. The remaining accounts receivable of \$387,465 (\$490,607 - \$103,142) were under 90 days old as of September 30, 2006.

**NOTE 5 - INVENTORY**

Inventory consists of extra repair parts for the sewer system and is recorded at cost.

GENOA-OCEOLA SEWER & WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

**NOTE 6 - CAPITAL ASSETS**

	Balance 10-01-05	Additions	Deletions	Balance 9-30-06
Software, equipment and furniture	\$ 127,501	\$ 103,760	\$	\$ 231,261
Sewer System	36,427,524	1,041,950		37,469,474
Land	290,720			290,720
Construction in progress	<u>60,279</u>	<u>276,215</u>	<u>103,760</u>	<u>232,734</u>
Total	36,906,024	1,421,925	103,760	38,224,189
Accumulated depreciation	<u>12,162,067</u>	<u>932,279</u>		<u>13,094,346</u>
Capital assets, net	<u>\$ 24,743,957</u>	<u>\$ 489,646</u>	<u>\$ 103,760</u>	<u>\$ 25,129,843</u>
Net capital assets				\$ 25,129,843
Bonds payable				<u>(4,950,000)</u>
Capital assets, net of related debt				<u>\$ 20,179,843</u>

**NOTE 7 - LONG-TERM DEBT**

On September 19, 2001, the Authority sold \$5,750,000 in bonds (Oceola's portion - \$4m and Genoa's portion \$1.75m) to finance a portion of the construction costs in expanding the wastewater treatment plant. Principal is payable in annual installments of \$215,000 to \$460,000 until its maturity in June 2021. Interest is charged at 4.0% to 4.8% payable semi-annually.

The Authority will be making all debt service payments. However, all amounts are to be repaid by Genoa Township and Oceola Township for their portion of sewer expansion costs. Therefore, the interest expense is recorded by the member townships.

GENOA-OCEOLA SEWER & WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

NOTE 7- LONG-TERM DEBT (continued)

The following is a schedule of principal and interest payments to service the long-term debt:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006 - 2007	\$ 225,000	\$ 219,086	\$ 444,086
2007 - 2008	240,000	210,086	450,086
2008 - 2009	250,000	200,486	450,486
2009 - 2010	265,000	190,486	455,486
2010 - 2011	275,000	179,886	454,886
2011 - 2016	1,615,000	713,329	2,328,329
2016 - 2021	<u>2,080,000</u>	<u>305,945</u>	<u>2,385,945</u>
	<u>\$ 4,950,000</u>	<u>\$ 2,019,304</u>	<u>\$ 6,969,304</u>

During the fiscal year ended September 30, 2006 the Authority borrowed \$310,000 from a member township to pay for the cost to refurbish a capital asset. The loan is verbal with no interest. Management expects the loan to be repaid in the next year.

NOTE 8 - STATEMENT OF CASH FLOWS

Pursuant to Governmental Accounting Standards Board (GASB) statement number 9, a statement of cash flows is presented. The purpose of the statement of cash flows is to explain the change in cash and cash equivalents during the year.

Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less. The direct method was utilized to present cash flows from operations. The following is a summary of beginning and ending cash and cash equivalents:

	<u>10-01-05</u>	<u>9-30-06</u>
Current assets		
Cash	\$ 107,775	\$ 156,703
Restricted assets		
Cash	<u>461,455</u>	<u>506,358</u>
Total cash	<u>\$ 569,230</u>	<u>\$ 663,061</u>

GENOA-OCEOLA SEWER & WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

**NOTE 9 - RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

**NOTE 10 - CONTINGENT LIABILITY - EXCESSIVE SODIUM AND CHLORIDE**

The Authority entered into a Consent Order with the Michigan Department of Environmental Quality (MDEQ) on December 10, 1999, to address excessive sodium and chloride concentrations being discharged to the local groundwater at the Genoa Oceola Wastewater Treatment Plant (WWTP).

The Authority has successfully eliminated the source of the sodium and chloride discharging to the local groundwater. The Genoa Oceola WWTP was expanded and converted to surface water discharge. The WWTP began discharging to surface water in fiscal year 2002.

The Authority's engineering consultants have prepared an interim response designed to meet criteria (IRDC) report for this site. The MDEQ approved the IRDC on October 4, 2006. The approved IRDC requires annual groundwater monitoring.

In the year ending September 30, 2006, the Authority spent approximately \$32,705 to comply with the Consent Order. On a cumulative basis, since June 1999 through September 30, 2006 the Authority has spent approximately \$609,821 to comply with the consent order. This fee has been recorded as an expense under operations. The amount of additional costs for the next fiscal year ending September 30, 2007 is estimated to be approximately \$20,000.

**NOTE 11 - SEGMENT INFORMATION**

Selected financial information is as follows:

Operating revenue	\$ 1,324,102
Depreciation	\$ 932,279
Total assets	\$ 31,262,247
Total net assets	\$ 25,880,281
Net income	\$ 114,876

GENOA-OCEOLA SEWER & WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

**NOTE 12 - BUDGET INFORMATION**

The Authority adopts an annual budget for operations of the sewer system prior to the fiscal year. The budget is amended from time to time to reflect economic reality.

The Authority excludes from the annual operating budget such items as:

- Depreciation
- Contributions from developers and members
- Major purchases from its reserve cash account

The Authority includes in the annual operating budget such items as:

- Major capital asset purchases from its Operations and Maintenance cash account.
- Transfers to reserves from Operations and Maintenance cash account.

The following schedule is reconciliation between the Statement of Revenues, Expenses and Changes in Net Assets (GAAP) and the Schedule of Revenues, Expenses and Transfers - Budget to Actual (Non-GAAP, supplementary information).

Per statement of Revenues, Expenses and Changes in Net Assets		
Net income		\$ 114,876
Reconciling items:		
Additions		
Depreciation expense	\$ 932,279	
Major repairs paid from reserve cash account	38,199	
Expansion study paid from construction fund	<u>25,718</u>	
Total additions		996,196
Deductions		
Transfers to reserves	(50,000)	
Contributions	(1,071,950)	
Telemetry phone system - capital asset	(43,481)	
Interest income from reserve funds	<u>(10,542)</u>	
Total deductions		<u>(1,175,973)</u>
Net revenues over under expenses and transfers per budget to actual report		<u>\$ (64,901)</u>

SUPPLEMENTARY  
INFORMATION

GENOA-OCEOLA SEWER AND WATER AUTHORITY  
SCHEDULE OF REVENUES, EXPENSES AND TRANSFERS – BUDGET TO ACTUAL  
OPERATIONS ONLY  
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Amended Sewer Budget for the Year End 9/30/2006	Sewer Actual for the Year End 9/30/2006	Variance Favorable (Unfavorable)
<b>REVENUES</b>			
Billings	\$ 1,325,000	\$ 1,324,102	\$ (898)
Interest income	500	311	(189)
Miscellaneous	12,000	9,971	(2,029)
Total revenues	<u>1,337,500</u>	<u>1,334,384</u>	<u>(3,116)</u>
<b>EXPENSES – OPERATIONS</b>			
Labor - fixed	343,274	340,527	2,747
Labor - groundwater discharge - consent order	30,000	32,705	(2,705)
Administrative consent order	42,000	41,556	444
Labor - out of scope, meter reads	19,885	19,885	
Engineering	29,500	22,074	7,426
Licensing	10,000	6,421	3,579
Sludge disposal	59,000	57,578	1,422
Chemical and supplies	15,000	11,795	3,205
R & M - building	1,000	401	599
R & M - grounds	5,000	7,428	(2,428)
R & M - equipment	130,000	139,699	(9,699)
R & M - sewer line	50,000	37,926	12,074
R & M - pumps	100,000	125,559	(25,559)
R & M - other	8,000	9,505	(1,505)
Sewer line cleaning	32,000	36,077	(4,077)
Utilities - electric	175,000	182,659	(7,659)
Utilities - gas/oil	20,000	15,079	4,921
Telephone	32,000	29,448	2,552
Laboratory supplies	28,000	25,696	2,304
Telemetry phone system	44,000	43,481	519
Inspections	2,000	2,249	(249)
Total operating expenses	<u>1,175,659</u>	<u>1,187,748</u>	<u>(12,089)</u>
<b>EXPENSES - ADMINISTRATION</b>			
Billing preparation	86,000	80,254	5,746
Legal fees	500	196	304
Office	3,500	4,594	(1,094)
Accounting/audit fees	19,500	19,255	245
Bookkeeping	5,400	5,400	
Per diem fees	11,000	9,075	1,925
Miss Dig - expenses	590	590	
Refunds and adjustments	500		500
Director fees	19,000	18,659	341
Insurance	23,514	23,514	
Total administration expenses	<u>169,504</u>	<u>161,537</u>	<u>7,967</u>
<b>TRANSFERS TO RESERVES</b>	<u>100,000</u>	<u>50,000</u>	<u>50,000</u>
Total expenses/transfers	<u>1,445,163</u>	<u>1,399,285</u>	<u>45,878</u>
Net revenues over expenses and transfers	<u>\$ (107,663)</u>	<u>\$ (64,901)</u>	<u>\$ 42,762</u>

This schedule is prepared to present revenues and expenses related to current operations only and includes capital purchases and transfers to reserves and as such does not present the results of operations on the basis of generally accepted accounting principles but is presented for supplemental information. See footnote for reconciliation of Budget to Actual report and Statement of Revenues, Expenses and Changes in Net Assets.



**John M. Pfeffer, C.P.A.**  
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December 16, 2006

Genoa-Oceola SWATH  
Honorable Board Members  
2911 Dorr Road  
Brighton, MI 48116

Dear Honorable Board of Trustees:

During the audit process for the year ending September 30, 2006 certain items came to our attention which we would like to discuss with you. Those items are as follows:

1. There was a few DTE invoices paid by Genoa-Oceola (G/O) SWATH which should have been paid by Marion-Howell-Oceola and Genoa (MHOG) SWATH. The locations, amounts and dates are as follows:

<u>Date Paid</u>	<u>3750 Cleary</u>	<u>2377 Golf Club</u>
03-20-06	\$ 130.48	\$ 8.83
05-24-06		8.65
10-16-06		8.78
	<u>130.48</u>	<u>26.26</u>
Total		<u>\$ 156.74</u>

Marion-Howell-Oceola and Genoa (MHOG) SWATH needs to write a check for \$156.74 to Genoa-Oceola (G/O) SWATH as a reimbursement.

2. The Genoa-Oceola (G/O) SWATH has been paying monthly DTE invoices for the resident at 123 Endicott. It appears the electricity is for the resident's grinder pump, which has been tied into the pump station at 117 Endicott. The utility director is working on resolving the problem.

3. It appears the Genoa-Oceola plant does various lab testing for other water/sewer districts. We recommend in the future the costs be tracked by Genoa-Oceola (G/O) SWATH and billed to these other districts.

We would like to thank Robin, Greg and others that assisted us during the audit process for their cooperation.

If you should have any questions, comments or concerns please do not hesitate to call us.

This report is intended solely for the information and use of the Board of Trustees and management of Genoa-Oceola SWATH and is not intended to be and should not be used by anyone other than the specified parties.

*Pfeffer, Hanniford & Palka, P.C.*

PFEFFER, HANNIFORD & PALKA  
Certified Public Accountants